COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Request of Fitchburg Gas and Electric Light Co. d/b/a Unitil for Approval of a Large Customer Basic/Default Service Procurement Pilot Program	**D.T.E. 06-74**

COMMENTS OF THE
MASSACHUSETTS DIVISION OF ENERGY RESOURCES

I. Introduction

On August 31, 2006, Fitchburg Gas and Electric Company d/b/a Unitil ("Unitil" or "Company") filed a request for approval by the Department of Telecommunications and Energy (the "Department") to initiate a pilot program concerning the procurement of basic/default service for its largest commercial and industrial customers (rate class G3). According to the Company, over time there has been reduced wholesale supplier interest in offering fixed monthly priced supply for its large basic/default service customers. In order to increase wholesale supplier interest, the pilot program would provide for the solicitation of a variable monthly price service. However, the Company would also solicit fixed monthly prices, as is the current practice. Once the bids are received, the Company will determine whether to accept the fixed monthly price or the variable monthly priced service.

The variable prices would consist of the load-weighted monthly average of the real-time locational marginal price ("LMP") for the West Central Massachusetts load zone plus a fixed monthly adder to cover all non-energy related costs (including capacity, ancillary services, and

ISO-NE administrative charges). Under the variable monthly pricing option, the basic/default service rates would not be known in advance of customers' receipt of service because the weighted average LMP would not be known until after the month of service.

The Company has requested that the Department approve its pilot program on or before October 6, 2006. The Department has issued a Request for Comments by September 22, 2006. DOER hereby submits the following comments.

II. <u>DOER Comments</u>

The Department should accept the proposed pilot program with modifications. As set forth below, the Unitil pilot program will be a more effective tool if it only solicits a variable monthly price and does not include the current practice of soliciting fixed monthly prices.

A. Real-Time Pricing Is a Critical Component of Energy Policy

DOER supports the implementation of real-time pricing (RTP), in the form of variable hourly basic service prices, to large commercial and industrial customers (C&I), for a number of reasons. First, DOER believes that RTP can deliver a number of benefits to customers and the electric system as a whole. Customers will be able to enjoy bill savings if load is shifted from peak periods to off-peak periods. More importantly, load shifts by large C&I customers will benefit all customers through lower capacity charges during peak hours and lower wholesale electricity prices due to movement down the generation dispatch curve, and will reduce the need for construction of additional capacity to serve a few peak hours per year. Second, RTP will solve the problems with basic service procurement that Unitil is trying to address with this filing as well as similar problems that NStar identified when it sought to revise its terms and conditions for distribution services and competitive suppliers (DTE 05-84).

As DOER stated in our comments in DTE 05-84, DOER believes that RTP "would eliminate the notice customers and competitive suppliers currently have as to the effective basic service rate or "price to beat" which precipitates the switching. Further, it has the added benefit of sending the right price signal to customers and, thereby, providing support for demand response programs and giving customers the opportunity to better control their electricity usage and costs." *Comments of the DOER* (12/19/05), p.8, NStar Electric (DTE 05-84).

Finally, RTP is a critical component of the Romney's Administration's "Next-Gen" Energy Plan to meet future electricity demands by reducing demand during peak periods. Other jurisdictions have moved in this direction and ordered mandatory RTP for large customers (*See*, NYPUC Case 03-E-0641, <u>Proceeding on Motion of the Commission Regarding Expedited Implementation of Mandatory Hourly Pricing for Commodity Service</u>; *See also*, NJBPU Docket No. EO05040317, <u>In the Matter of the Provision of Basic Generation Service for the Period Beginning June 1, 2006</u>). Further, the recently enacted Federal Energy Policy Act of 2005, directs states to conduct an investigation and issue a decision on whether or not it is appropriate for their state to move to time-based pricing and other demand response programs. See, Subtitle E: Amendments to PURPA, Section 1252.

B. The Pilot Should Procure Only Variable-Priced Electricity

DOER believes that the Unitil pilot program should solicit default service for its large C&I customer class only on the basis of a variable monthly price service. Though we would prefer this approach to be carried forward on a permanent basis, we support the use of a pilot followed by evaluation and examination to its effectiveness in addressing problems in basic-service procurement and the costs to customers vis-à-vis a fixed-price product. DOER disagrees with the proposal, to the extent it allows Unitil the option to select a fixed-price product if the bids for a variable-price product are deemed inferior. The Department should approve the use of variable-pricing for basic service for large C&I customers as a pilot program, not simply the underlying procurement process.

III. Conclusions

For the reasons set forth above, DOER respectfully requests the Department to approve the proposed pilot program for a variable monthly price service, but eliminate the provision allowing Unitil to resort to its existing fixed monthly prices. As such, this pilot program will provide an invaluable tool to the industry in evaluating the potential for real time pricing in the Commonwealth.

Respectfully submitted,

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